

HOUSING MARKET OUTLOOK

Saguenay CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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Housing demand stimulating the market in the Saguenay area¹

In the Saguenay census metropolitan area (CMA), residential construction will be vigorous in 2012. It is anticipated that 975 housing units will be started during the year, including a

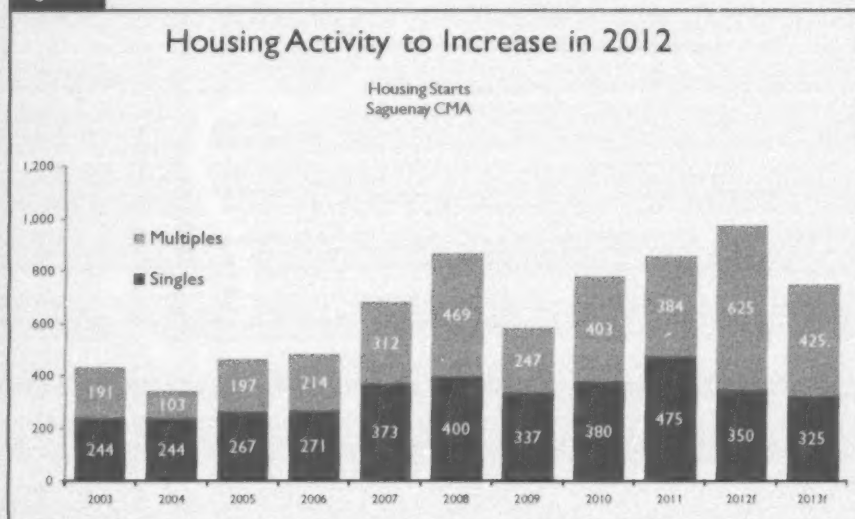
good number of apartments. Housing demand remains significant in the area, stimulated by a resilient labour market, stable mortgage interest rates and steadily improving net migration. However, with construction having gotten under way on several large projects in 2012, housing starts are expected to fall in 2013, reaching 750 units.

Housing fundamentals will also

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Figure 1



Source: CMHC

f: Forecasts

¹ The forecasts provided in this document are based on the information available on April 27, 2012

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revitalize the resale market. In fact, MLS® sales should grow by more than 3 per cent this year and by slightly less than 2 per cent in 2013. Even with a somewhat more abundant supply than in the past, market conditions will remain favourable to sellers, which will be conducive to increases in the average price of residential properties of over 5 per cent in 2012 and just under 4 per cent in 2013.

Lastly, on the rental housing market, demand remains steady. Even if the rental housing stock has grown since 2010, conditions have stayed tight. With the addition of new units in 2012, the vacancy rate should reach 1.2 per cent in October of this year, before rising to 1.6 per cent in October 2013.

Employment improves

After posting slower growth in 2010 and 2011, employment in the Saguenay census metropolitan area (CMA) will pick up again in 2012. While investments in aluminum production and municipal road infrastructure will

add jobs to Saguenay's economy, a slow economic recovery in the U.S. will pose some headwinds to job growth.

The slow economic recovery in the U.S. has in fact dampened demand for Saguenay's exports and resulted in the loss of manufacturing jobs. Manufacturing sector employment has been on a declining trend since 2006 and has been the major cause for the slowdown in total employment growth during the past few years.

Despite losses in manufacturing jobs, investments in local aluminum production and municipal roads will contribute to employment growth in the Saguenay CMA. The effect of these investments on job creation has already been observed during the past few quarters. The seasonally adjusted unemployment rate has been hovering around the historical low of 6 per cent since late 2011, indicating a relatively tight employment market. This condition also prompted more people to enter the job market, as evidenced by an improving participation rate since the third

quarter of 2011.

In 2013, the Saguenay economy will add another 500 jobs. While the slow economic recovery in the U.S. will continue to pose headwinds, investments in infrastructure and aluminum production will contribute to the CMA's employment growth.

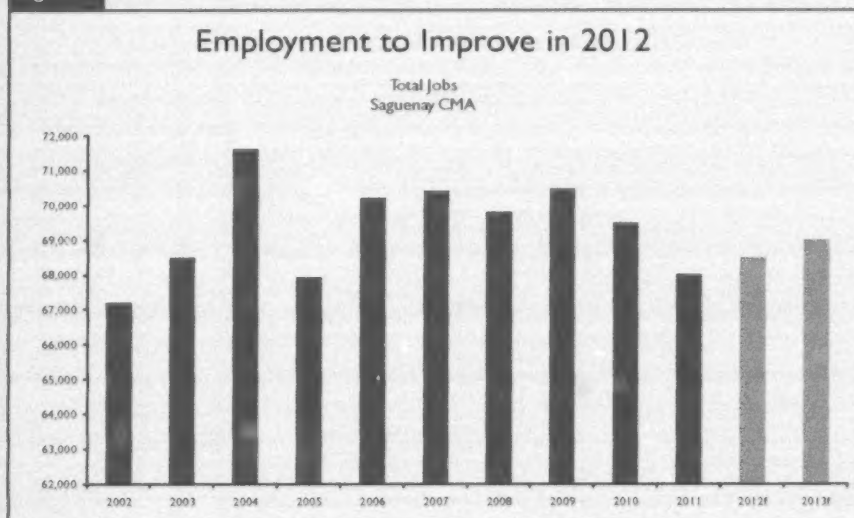
Demographics influence housing demand

Demographic trends are important to housing demand, as they influence the types of housing that will be needed in the future. There are currently two important demographic trends in the Saguenay CMA: positive population growth, thanks to more young people staying in the area, and the aging of the population.

Saguenay's improving job market has contributed to keeping people aged between 25 and 44 from leaving the CMA, and in turn helped achieve positive population growth. During the 2001-2006 census period, total population decreased by 2.1 per cent as a result of the out-migration of young people looking for jobs elsewhere. However, as job prospects improved in the 2006-2011 census period, more and more young people decided to stay and settle in the CMA, which resulted in a 1-per-cent increase in the total population during this period.

More young people mean more demand for rental apartments, resale homes and new multiple-family housing units. According to research, households aged between 25 and 44 tend to rent first for a few years and become homeowners later. When they are ready to become homeowners, they tend to buy on the resale market, because resale homes are generally more financially accessible than new

Figure 2



Source: Statistics Canada
f: Forecasts

homes. If they choose to buy on the new home market, multiple-family housing types such as semi-detached homes tend to be their first choice. With an increasing number of young people staying in the Saguenay CMA, demand for multi-family housing will be sustained.

Another demographic trend in the Saguenay CMA is the aging of the population. Despite more young people staying, empty nesters aged 55 or older continue to be the largest age group in the Saguenay CMA, and they tend to downsize to smaller homes. While many may choose rental apartments, some may move into semi-detached homes.

Resale market: more buyers in 2012

More buyers in the market will contribute to higher sales of existing homes in the Saguenay CMA. MLS® sales are expected to increase by 3 per cent from the level recorded in 2011, reaching 1,400 units. The lower level of sales in 2011 was

a result of many first-time buyers moving their purchase forward to 2010 in order to beat the mortgage rate hike. These young buyers tend to be more sensitive to changes in borrowing costs, and the mortgage rate hike in 2010 resulted in fewer first-time buyers in 2011. In 2012, however, mortgage rates will remain near their historical low, and many first-time buyers will return to the market looking for their first home. In fact, MLS® sales in the first quarter of 2012 increased by almost 17 per cent compared to the same period in 2011, which reflects the return of first-time buying activity.

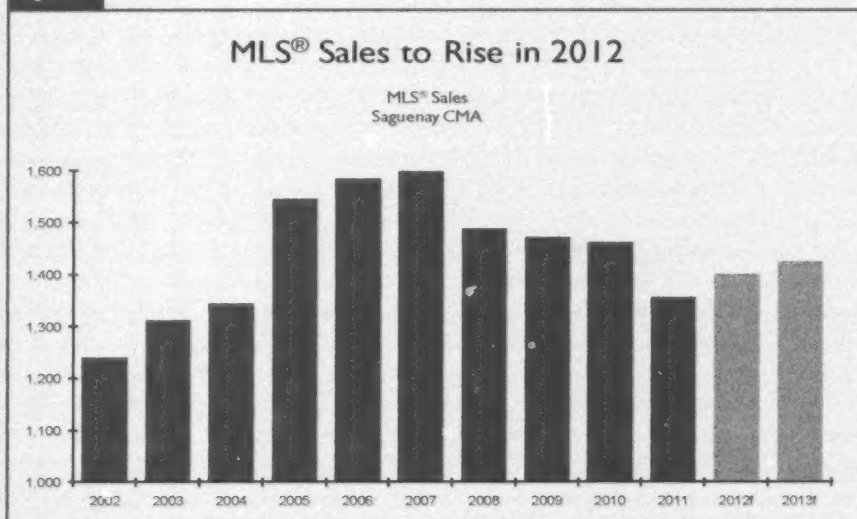
In terms of active listings, strong equity gains and more downsizing will contribute to a higher level of listings on the market. With strong price growth during the past few years, many people are selling their houses so they can use the equity gain to move up or move down. Among the sellers are empty nesters and retirees who are selling in order to downsize. These older sellers account for the majority of the population

in the CMA and represent a major source of supply on the resale market. With sales expected to pick up again in 2012 and prices to remain high, many empty nesters and retirees will put their homes on the market this year, contributing to higher inventory numbers on the market. In 2012, active listings will reach 760 units, for a 1.2-per-cent increase from the level recorded in 2011.

With more listings to meet the demand, price growth in the Saguenay CMA will ease slightly. The average MLS® price of homes will increase by 5.1 per cent in 2012, to \$188,000, which is slower than the 6.3-per-cent hike recorded in 2011.

In 2013, however, MLS® sales will slow as a result of the expected increase in mortgage rates later that year. While good employment prospects will continue to support housing demand, rising borrowing costs will contribute to slower MLS® sales growth. Sales of existing homes are expected to increase by 1.8 per cent from their 2012 level, reaching 1,425 transactions. With sales slowing, price growth will ease. The average MLS® price will increase by 3.7 per cent in 2013, reaching \$195,000.

Figure 4



Source: QFREB by Centris®
f: CMHC forecasts

Multiple-family housing drives total starts

In 2012, strong activity in the multiple-family housing segment will push total housing starts to a record high of 975 units. The strong demand for new multiple-family housing is most likely attributable to the significant demand from first-time buyers and empty nesters, and a tight rental market.

First-time buyers tend to be a major source of demand for row and semi-detached homes. These housing types tend to be financially more

accessible than higher-priced single-detached homes and are therefore more popular among young families. With near-historical low mortgage rates and good job prospects, demand from first-time buyers will continue to support construction of multi-family housing.

Empty nesters in the 55 years or older group are another source of demand for multiple-family housing. This is in fact the largest age group in the Saguenay CMA, and many tend to downsize to rental apartments or semi-detached houses as their children move away.

The tight rental market in the Saguenay CMA has been the main driver for rental housing construction. Rental vacancy rates have been below 2 per cent, despite more rental construction in the CMA. Rental housing starts in 2012 are expected to move up to 285 units from the 178 units recorded in 2011.

As for single-detached homes, foundations will be laid for 350 units this year, down from the 475 units enumerated in 2011. More choice in the resale market will be the major cause for the lower level of detached home starts. Many buyers tend to prefer move-in ready homes, rather than waiting for six months or more for a new home.

In 2013, overall construction will move down to 750 starts, as a result of the anticipated higher mortgage rates and an easing rental market. The apartment vacancy rate is expected to rise slightly in 2013 and will contribute

Figure 5



Source: CMHC
f: Forecasts

to fewer rental starts. Higher mortgage rates in 2013 will also slow the demand from first-time buyers.

Rental market conditions to remain tight in 2012

As was mentioned before, rental market conditions have been tight for the past few years, despite the growing supply since 2010. The vacancy rate has remained below 2 per cent since 2008 as a result of strong demand outpacing supply. In 2012, conditions will remain tight, with a vacancy rate of 1.2 per cent.

Supply has been relatively slow compared to demand during the past few years. In 2010 and 2011, some 160 rental housing units (Excluding senior's rental housing) were started each year, but this volume did not provide relief

to the tight rental market in 2012.

Strong rental demand in the Saguenay CMA was the result of a combination of demographics and improvement in the job market. In the Saguenay CMA, empty nesters and retirees represent a large portion of the total population, and some of them may choose to downsize to rental dwellings. Improving net migration deficits also helped with rental demand. Good job prospects kept a number of young people from leaving, resulting in some demand for rental housing.

In 2013, the vacancy rate will remain below 2 per cent but move up slightly (to 1.6 per cent). While demand will remain strong, the rental market should ease somewhat as the new rental housing units started this year are completed.

Forecast Summary Saguenay CMA Spring 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	1,472	1,459	1,357	1,400	3.2	1,425	1.8
MLS® Active Listings	746	713	751	760	1.2	760	0.0
MLS® Average Price (\$)	151,911	168,283	178,951	188,000	5.1	195,000	3.7
New Home Market							
Starts:							
Single-Detached	337	380	475	350	-26.3	325	-7.1
Multiples	247	403	384	625	62.8	425	-32.0
Starts - Total	584	783	859	975	13.5	750	-23.1
Average Price (\$):							
Single-Detached	193,687	192,705	202,076	205,000	1.4	210,000	2.4
New Housing Price Index (% chg) (Que.)	3.1	3.1	2.6	n. a.	-	n. a.	-
Rental Market							
October Vacancy Rate (%)	1.5	1.8	1.4	1.2	-	1.6	-
Two-bedroom Average Rent (October) (\$)	518	535	557	565	-	575	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	70,400	69,500	68,000	68,500	0.7	69,000	0.7
Employment Growth (%)	0.9	-1.3	-2.2	0.7	-	0.7	-
Unemployment rate (%)	8.7	8.1	7.0	7.8	-	8.0	-
Net Migration	-397	-195	-200	-150	-25.0	-100	-33.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), QFREB by Centris®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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